

The Refinancing Squeeze Facing Middle-Market Companies

By Jason Saltsberg

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Middle-market borrowers holding billions of dollars in collective corporate debt are approaching the maturity dates of credit facilities originated during the low-rate environment of 2021. These borrowers are confronting a very different financing market.

The challenge is not necessarily a lack of available capital, but instead the growing gap between the amount of capital available in the market and the amount of capital and terms that lenders are willing to commit to.

Following the pandemic, borrowing activity surged, fueled in part by the rapid expansion of private credit and direct lending. Many loans originated during that period were structured on borrower-friendly terms, including low interest rates, limited financial covenants and substantial flexibility. Those facilities are now approaching maturity, creating a significant refinancing need.

At first glance, the availability of capital might suggest that borrowers should have little difficulty refinancing. Private credit remains a



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substantial source of financing, an estimated \$264 billion in dry powder as of mid-2026, according to Valuation Research Corp., and lenders continue to compete for attractive transactions.

However, the market has become considerably more selective. Private credit is shifting from a period characterized by abundant capital chasing deals toward one in which capital deployment by lenders is increasingly discerning.

Competition among traditional banks, syndicated lenders and private-credit providers has helped introduce greater flexibility into the



credit markets over the past several years. Features once more commonly associated with private credit, including payment-in-kind (PIK) provisions and other forms of payment flexibility, have increasingly appeared across the broader leveraged-finance market.

At the same time, however, lenders are now placing greater emphasis on credit quality, cash-flow durability, leverage, industry exposure and downside protection.

As a result, two companies of similar size may encounter very different refinancing markets. A business with predictable cash flow, manageable leverage and limited exposure to cyclical or disrupted industries may still generate substantial lender interest.

A company with declining EBITDA, elevated leverage or significant exposure to sectors facing structural uncertainty may find that the same capital is considerably more difficult and more expensive to access.

Liquidity considerations on the lender side are also becoming increasingly relevant. Certain private-credit vehicles have experienced elevated redemption requests during 2026, prompting some managers to prioritize liquidity and, in some cases, limit investor withdrawals.

These pressures do not mean that private credit lacks capital. Rather, they illustrate why a lender's willingness to deploy capital can depend on the structure of its fund, its existing portfolio and its own liquidity requirements.

Interest rates add another layer of complexity. Borrowers refinancing facilities originated in 2021 may face materially higher borrowing costs than those reflected in their existing agreements, which in some cases may be as much as double their current rates.

Contrary to predictions that were being made going into 2026 about interest rates expecting to decrease, the opposite has occurred. Inflation, economic uncertainty and geopolitical conditions, particularly the continued conflict in the Middle East, have kept the cost of borrowing high.

Current market data also shows that spreads remain meaningful for middle-market direct lending, meaning that a lower base rate does not necessarily translate into inexpensive refinancing.

These factors all result in a refinancing environment in which capital availability does not equal capital accessibility. The outlook, however, is not uniformly negative. The middle market is not a one-size-fits-all marketplace. Credit stress remains concentrated rather than systemic, and lenders continue to seek borrowers with durable cash flows and resilient business models.

Businesses in sectors such as health care, infrastructure and essential business services may continue to attract significant lender interest, while certain technology and software businesses face additional scrutiny because of concerns about the potential effects of artificial intelligence on existing business models.

The takeaway for borrowers is that preparation is critical.

First, start the refinancing process early. Waiting until shortly before maturity can unnecessarily reduce negotiating leverage and limit the available alternatives. Beginning well in advance gives borrowers time to understand how different lenders view the credit opportunity, identify potential issues and determine whether an amendment, refinancing, maturity extension, syndicated transaction or private-credit solution makes the most sense.

Second, do not assume that the incumbent lender is the only, or necessarily the best, option. Different lenders have different mandates, portfolio concentrations and return requirements. A lender that has become more restrictive may view a particular credit scenario differently from a new lender seeking to deploy capital in that sector.

Depending on their mandate, some private lenders may have a greater interest in sourcing new deals. Moreover, traditional lenders may offer better terms in the current environment. Borrowers should test the market rather than relying on a single financing source; it's critical to find the lender that is right for their situation.

Third, prepare the business for lender scrutiny before entering the market. Borrowers should be prepared to explain recent financial performance, demonstrate the durability of projected cash flows, address industry-specific risks and present a credible plan for managing leverage.

Identifying potential concerns before lenders raise them can materially improve the refinancing process.

Finally, borrowers should evaluate the entire financing package, not simply the interest rate. Covenants, amortization requirements, collateral, baskets, prepayment provisions, equity contributions and other structural terms can have significant economic consequences over the life of the facility and impact the borrower's ability to operate and grow its business.

The refinancing market facing middle-market companies is therefore best understood not as a shortage of capital, but as a period of greater differentiation. Capital remains available, but lenders are becoming more disciplined about where they deploy it and the protections they require in return.

For borrowers approaching loan maturities, the most important advantage may be time. The earlier they understand their refinancing alternatives and address potential weaknesses in their credit profile, the more options they are likely to have when they ultimately enter the market.

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